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### **Analysis of Enrolled House Bill 5925**

**Topic:** Small Liquor Distillers  
**Sponsor:** Representative Byrum  
**Co-Sponsors:** Representatives Griffin, Mayes, Bieda, Proos, Simpson, Condino, Accavitti, Donigan, Robert Jones, Vagnozzi, Valentine, Bauer, Meadows, Lemmons, Sheltrown, Gillard, Hopgood, Coulouris, LeBlanc, Ward, Moore, Nofs, Horn, Hammon, Alma Smith, Meekhof, Huizenga, and Cushingberry  
**Committee:** House Regulatory Reform  
Senate Economic Development & Regulatory Reform  
**Date Introduced:** March 20, 2008  
**Date Enrolled:** June 27, 2008  
**Date of Analysis:** June 12, 2008

**Position:** The Liquor Control Commission is neutral on the bill.

**Problem/Background:** Artisan, or small-scale, distilling is growing in popularity around the country. It is estimated that there are about 140 small distilleries in the United States. Several states, including New York and South Dakota, have recently passed laws to encourage this trend. In Michigan, liquor distillers are required to pay a \$1,000 license fee and are required to sell their products through a distributor. Michigan's law has been amended to create a niche for wineries distilling fruit-based brandy.

**Description of Bill:** The bill amends multiple sections of the Michigan Liquor Control Code of 1998 to create a new category of liquor license for small distillers. A "small distiller" is defined as a manufacturer of spirits manufacturing in Michigan 60,000 gallons of spirits or less of all brands combined. The license fee would be \$100. A small distiller is permitted to sell at retail but only from the licensed premises. Sales may include brands manufactured on the premises for consumption off the premises. Prices for off-premise brands are controlled by the Liquor Control Commission. Sales may also include brands manufactured on the premises for consumption on the premises. Samplings or tastings of brands manufactured on the premises may be given. Compliance with server training requirements would be required. Sales by mail order, Internet, telephone, computer, device, or other electronic means are not permitted. A small distiller is not considered a specially designated distributor and is therefore not affected by the licensure prohibition in Section 607.

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## Summary of Arguments

**Pro:** An amendment to permit small distillers has significant economic potential. The MEDC has estimated a potential increase of over \$400 million in economic activity in Michigan if small distillers are allowed to manufacture and sell their products. The bill would reportedly provide one of the most favorable climates in the country for small distillers.

Michigan's diverse agriculture is particularly conducive to small distillers. Michigan reportedly is second in the country behind California in the types of crops grown. Michigan's liquor laws take advantage of this diversity by allowing wineries to manufacture brandy from fruit. However, the state has not taken advantage of the abundance of grains to allow the manufacture of whiskey, vodka, rum, and other spirits. This bill would rectify that oversight.

The proposed \$100 fee for a small distiller license will be a significant incentive for those considering getting into this business. According to testimony in committee, it is difficult to break into this business. A combination of time, money, and patience is required to grow a successful business venture in this industry. One person testified in committee that he has had his manufacturer license for over 4 years and has not yet turned out his first bottle of brandy.

**Con:**

## Fiscal/Economic Impact

### (a) Department

**Budgetary:** The bill will have no significant budgetary impact on the department.

**Revenue:** The bill will have no direct impact on department revenues.

**Comments:** MCL 436.1543 (2) provides that all license and license renewal fees for other than retail licenses are credited to the Grape and Wine Industry Council in the Department of Agriculture.

### (b) State

**Budgetary:** No budgetary impact on state government.

**Revenue:** The bill has the potential to reduce revenues to the Grape and Wine Industry Council by about \$13,000 annually. The current license fee is \$1,000. The bill provides for a \$100 fee for small distillers. It is assumed that all manufacturer licensees would qualify as "small distillers". Brandy manufacturers who have the proper distillation equipment to meet federal requirements would also qualify for the new license. Both types of manufacturers may be able to swap their current license for the new, cheaper license. Currently, there are five manufacturers of spirits and 9 brand manufacturers licensed.

**Comments:**

**(c) Local Government**

**Comments:** The bill will have no direct impact on local government.

**Other State Departments:** The Department of Agriculture has an interest in this issue. James Byrum, the Chairman of the Michigan Commission of Agriculture, testified in favor of the bill.

**Any Other Pertinent Information:** The bill was supported in committee by the Traverse City Chamber of Commerce, Entante Spirits (Baroda), New Holland Brewing Company (Holland), and Wine Michigan. The Michigan Beer & Wine Wholesalers was neutral.

**Administrative Rules Impact:** No new or revised administrative rules will be needed.